MODERN SLAVERY AND INVESTING

ALLIANCEBERNSTEIN

Investors, like many consumers, are often unaware of modern slavery risk in their portfolios, and they're not sure what they can do to drive positive change. Both challenges require a systematic approach.

Everyday modern slavery encounters
For most people, going to the supermarket is a benign experience: they drive to the store, fill their shopping carts with fish and vegetables for dinner, and stream music from their cell phones on the ride home. But the risk of modern slavery lurks under the surface of these everyday activities.

For example, the iron in car doors may have been produced using forced labour. Certain fish from Thailand or tomatoes from Italy may have been caught or harvested by people struggling under debt bondage. Some cobalt in cell phones is sourced from mines with unfair working conditions. These same risks are also present for investors who steer capital to businesses.

Modern slavery directly affects more than 40 million people worldwide. And it indirectly affects many, many more. To achieve the United Nations' goal of eradicating modern slavery by 2030 would require the freeing of more than 10,000 people a day.

Modern slavery can manifest in different forms:

- Forced labour
- Debt bondage
- Forced marriage
- Slavery
- Slavery-like practices
- Human trafficking
- Child labour

As human beings, we have a moral duty to combat modern slavery. As investors, we have the ability—and responsibility—to use research as a tool to identify modern slavery risk, and to use our power to engage on modern slavery risks, working with companies to address them. Both avenues can empower important advances in the battle against modern slavery.

Action on modern slavery is intensifying

Global governments and citizens are beginning to confront this social issue. Public policymakers are building a pipeline of new legislation with a heavier hand on modern slavery. For example, companies in the UK and Australia must report on how they identify and address modern slavery risks in their operations and supply chains. In the EU, Germany and Norway, companies must conduct human-rights due diligence. Some countries now ban imports of products allegedly made with forced labour—restrictions that can drive changes in consumer demand and increase financial risk to firms.

Consumers and company employees are using their individual and collective power to effect positive change. Consumers, for example, use online applications to shop ethically. They also may go out of their way to shop locally, ensuring that the products they purchase have been made without forced labor. Employees put pressure on the companies they work for and celebrate when action has been taken to mitigate risks. The media is reflecting these considerations, judging bad actors in the court of public opinion.

Investors need a systematic approach

Investors have to be even more systematic in identifying and addressing modern slavery risk. This can be achieved in various ways such as analysing issuers' modern slavery risk exposure, based on factors posing a high risk to people. Factors such as vulnerable populations, as well as high-risk geographies, products and services, and business models. For example, migrant workers are particularly vulnerable to modern slavery, or if a region has a history of abuses or is plagued by conflict.

Certain products and services—like raw materials or goods produced in sweat shops—are at higher risk for modern slavery abuses in companies' operations or supply chains. Some business models are more prone to using forced labour or debt bondage, including those that outsource or that have seasonal demand peaks and troughs.

Once investors identify an issuer's riskiness, they need to dig deeper to better understand how leaders are addressing these risks such as implementing a strong governance framework to champion action on modern slavery. This leads to learning how issuers identify risks—whether it's through frequent audits, site visits, third-party assessments, whistleblower hotlines or technology. If an issuer has identified certain risks, an action plan needs to be put in place which aims to reduce the identified risk. Are the issuers taking actions to put them on a path to future improvement?

Management access and collaboration

It has been recognised that corporations with "obvious" exposure—including those facing negative press or consumer backlash—are keen to improve their practices but are often earlier in their journey to address modern slavery risks. Firms with less obvious exposure may not even be aware of the challenge.

Engaging on these issues gives investors even greater access to management teams and better insight into companies' supply-chain management or cultures. During engagements on modern slavery issues, it is important to speak with people in different functions, including sustainability and procurement roles to get a more holistic view. Most companies want to join the fight for positive change.

Through active engagement and by communicating expectations of companies, investors can push issuers to make advances on modern slavery, helping victims and generating long-term, sustainable performance. Modern slavery is a complex issue that requires systematic and in-depth research, broad industry collaboration and collective action across the investment community.

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